



## Telecom Decision CRTC 2020-395

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Ottawa, 7 December 2020

### Final 2020 revenue-percent charge and related matters

*The Commission **approves on a final basis**, effective 1 January 2020, a 2020 contribution collection revenue-percent charge of 0.44% and the 2020 subsidy payments for the incumbent local exchange carriers (ILECs), with the subsidy payments for Northwestel Inc. becoming interim effective 2 November 2020.*

*The Commission **approves on an interim basis**, effective 1 January 2021, a 2021 contribution collection revenue-percent charge of 0.44%, and the 2021 subsidy payments for the ILECs.*

### Introduction

1. Through a series of proceedings and decisions during the 1990s, the Commission opened up various telecommunications markets to competition, including the local telephone market. This enhanced the Canadian telecommunications system and enabled Canadians to benefit from competition. The Commission also established a subsidy regime, whereby money collected from telecommunications companies is used to subsidize residential local telephone service.
2. In Decision 2000-745, the Commission modified the subsidy regime to introduce a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy afforded to the incumbent local exchange carriers (ILECs)<sup>1</sup> for providing service in their high-cost serving areas (HCSAs).<sup>2</sup>
3. Telecommunications service providers (TSPs), or groups of related TSPs, that have \$10 million or more in Canadian telecommunications service revenue pay contribution into a national fund called the National Contribution Fund (NCF). Subsidy is then paid out from that fund to the ILECs, who are also TSPs, for providing residential local telephone service in regulated HCSAs.
4. In Telecom Regulatory Policy 2014-187, the Commission determined that a national video relay service (VRS) would be implemented in Canada, with funding being provided through the NCF. The Commission also established a \$30 million annual funding cap to cover all administrative and service-related costs for VRS.
5. In Telecom Regulatory Policy 2016-496, the Commission determined that a funding mechanism would be established to support the expansion of fixed and mobile wireless broadband Internet access and wireless voice services (the Broadband

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<sup>1</sup> Since Decision 2000-745, modifications have been made to various components of the subsidy regime.

<sup>2</sup> An HCSA is a clearly defined geographical area where the monthly costs to provide basic service are greater than the associated revenues generated by service rates.

Fund). The Commission also determined that, starting in the first year of the Broadband Fund, the definition of contribution-eligible revenue would be expanded to include retail Internet access and paging service revenues in the calculation of the revenue-percent charge.<sup>3</sup>

6. In Telecom Regulatory Policy 2018-377, the Commission determined that the Broadband Fund would be introduced within the NCF and administered by the Central Fund Administrator (CFA).<sup>4</sup>
7. In Telecom Regulatory Policy 2018-213, the Commission determined that the phase-out of the local service subsidy would occur over a three-year transition period, from 1 January 2019 to 31 December 2021, through semi-annual reductions. Each ILEC's transition subsidy amount is calculated based on its total 2018 subsidy amount.
8. Because the Commission determined that 2020 would be the first year of operation for the Broadband Fund, the definition of contribution-eligible revenue was expanded to include retail Internet access and paging service revenues, effective January 2020.
9. Each year, the Commission finalizes the subsidy payments to the ILECs for providing residential local telephone service in regulated HCSAs. The Commission establishes a final revenue-percent charge to ensure that the amount of money collected is sufficient to meet subsidy, VRS, and broadband requirements.
10. In Telecom Decision 2019-395, the Commission set, on a final basis for 2019, a revenue-percent charge of 0.52% and the transition subsidy amounts for the ILECs. The Commission set, on an interim basis for 2020, a revenue-percent charge of 0.45% and the transition subsidy amounts for the ILECs.
11. The Commission received a submission from the Canadian Telecommunications Contribution Consortium Inc. (CTCC)<sup>5</sup> that provided the information needed to finalize the 2020 revenue-percent charge.
12. The Commission addresses the following matters in this decision:
  - the estimated national subsidy, VRS, and broadband requirement for 2020;
  - the final 2020 revenue-percent charge and subsidy payments from the NCF;
  - the interim 2021 revenue-percent charge and subsidy payments; and
  - the excess NCF funds after the December 2020 data-month is processed.

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<sup>3</sup> While the approved deduction is called Retail Paging Service, the Commission used the term "texting" in Telecom Regulatory Policy 2016-496 because the majority of retail paging revenues are texting revenues.

<sup>4</sup> The CFA is responsible for maintaining the system used by TSPs to report contribution-eligible revenue, calculating monthly contribution payments, collecting contribution, and paying subsidy, VRS funding, and broadband funding.

<sup>5</sup> The CTCC is responsible for establishing the procedures necessary for the operation of the NCF and contracting with a company to act as the Central Fund Administrator.

## **Estimated national subsidy, VRS, and broadband requirement for 2020**

13. The national subsidy, VRS, and broadband requirement is based on the sum of (i) the transition subsidy payments to the ILECs, (ii) the funding for VRS, (iii) the funding for broadband, and (iv) the administrative and operational costs of the CTCC and the CFA.

### **Transition subsidy payments to the ILECs**

14. As per the fourth quarter Central Fund Report, provided by the CFA and posted on the Commission's website, the total 2018 subsidy paid to the ILECs was \$77.3 million.
15. On the basis of the semi-annual subsidy reductions during the transition period outlined in Telecom Regulatory Policy 2018-213, the transition subsidy payments made to the ILECs will total \$38.7 million in 2020.
16. In Telecom Decision 2007-5, the Commission approved \$10.1 million in annual funding related to the non-access portion of Northwestel Inc.'s (Northwestel's) service improvement program (SIP), which was completed in 2005. This amount is in addition to Northwestel's 2020 transition subsidy payments.
17. In Telecom Notice of Consultation 2020-367, the Commission set, on an interim basis, the transition subsidy payments for Northwestel for the 14-month period beginning 2 November 2020 and ending 31 December 2021.

### **Funding for VRS**

18. In Telecom Decision 2019-394, the Commission approved an application from the Canadian Administrator of VRS (CAV), Inc. (CAV) requesting approximately \$16 million in funding for 2020. The Commission notes that the approved funding amount of \$16 million for 2020 included a surplus carry-forward amount of approximately \$6 million from 2019.

### **Funding for broadband**

19. Because the Commission determined that 2020 would be the first year of operation for the Broadband Fund, a funding amount of up to \$100 million will be available for 2020.

### **CTCC and CFA administrative and operational costs**

20. The Commission received notification from the CTCC that the estimated CTCC and CFA administrative and operational costs would be approximately \$0.9 million for 2020. This amount is included in the national subsidy, VRS, and broadband requirement.

21. In Telecom Decision 2019-383, the Commission determined that the minimum Prescribed NCF Balance<sup>6</sup> would increase from \$5 million to \$10 million during 2020.

#### **Estimated 2020 national subsidy, VRS, and broadband requirement**

22. In light of the above, the Commission estimates the total 2020 national subsidy, VRS, and broadband requirement to be \$170.7 million.

#### **Final 2020 revenue-percent charge and subsidy payments from the NCF**

23. The revenue-percent charge is calculated using the ratio of the national subsidy, VRS, and broadband requirement to the estimated total contribution-eligible revenues of all TSPs that are required to contribute, which as of 2020 includes their retail Internet access and paging service revenues.
24. The Commission considers that a final 2020 revenue-percent charge of 0.44% would be appropriate.
25. Accordingly, the Commission **approves** a final 2020 revenue-percent charge of 0.44%, effective 1 January 2020.
26. The Commission **approves on a final basis**, effective 1 January 2020, the transition subsidy payments for the ILECs, which are calculated based on the subsidy phase-out schedule in Telecom Regulatory Policy 2018-213, with the exception of Northwestel's transition subsidy payments, which will remain interim effective 2 November 2020. The total 2020 transition subsidy payments for the ILECs are \$38.7 million plus \$10.1 million for the Northwestel SIP.
27. The Commission **directs** the CFA to distribute the monthly transition subsidy phase-out amounts to the ILECs on a final basis, effective 1 January 2020, with the exception of Northwestel's transition subsidy payments, which will remain interim effective 2 November 2020. The Commission also **directs** the CFA to distribute, on a final basis, one twelfth of the \$10.1 million for Northwestel's annual SIP funding every month for 12 months.

#### **Interim 2021 revenue-percent charge and subsidy payments**

28. Based on the continued subsidy phase-out reductions of the 2018 subsidy amounts received by each ILEC, the Commission estimates that the total interim subsidy to be paid during 2021 will be approximately \$16.6 million.
29. The Commission **directs** the CFA to make the 2021 transition subsidy payments to the ILECs on an interim basis.

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<sup>6</sup> The Prescribed NCF Balance is money held by the NCF in reserve to ensure that sufficient funds are available each month to make the required payments.

30. In Telecom Decision 2020-394, the Commission approved an application from the CAV requesting approximately \$27.3 million in funding for 2021. The Commission notes that the approved funding amount of \$27.3 million for 2021 included a deficit carry-forward amount of approximately \$1 million from 2020.
31. In Telecom Regulatory Policy 2016-496, the Commission determined that the Broadband Fund would make \$100 million available in its first year of operation and would increase by \$25 million per year over the next four years, with the increases in years four and five contingent on a review of the Broadband Fund in year three to ensure that it is managed efficiently and is achieving its intended purpose. Because its first year of operation was 2020, up to \$125 million will be made available from the Broadband Fund in 2021.
32. Including the CTCC and CFA estimated costs of \$0.9 million, the Commission estimates that the amount to be collected in order to meet subsidy, VRS, and broadband requirements during 2021 is \$169.8 million.
33. Taking into account the estimated contribution-eligible revenues of all TSPs that are required to contribute, including their retail Internet access and paging service revenues, the Commission considers that an interim 2021 revenue-percent charge of 0.44%, effective 1 January 2021, would be appropriate.
34. Accordingly, the Commission **approves on an interim basis** a 2021 revenue-percent charge of 0.44%, effective 1 January 2021.

#### **Excess NCF funds after the December 2020 data-month is processed**

35. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF, which resulted in funds in excess of the CTCC's requested minimum balance being retained by the required contributors as uncalled contribution, rather than being held by the NCF as a cash surplus. The Commission indicated that it would direct the CFA to release the uncalled contribution at year-end because these amounts would not be needed by the NCF in that year.
36. While the Commission has made available \$100 million in funding for the first year of the Broadband Fund, not all of that amount will be paid out during 2020. Any uncalled contribution associated with the unpaid portion of the Broadband Fund needs to be retained by the NCF for future payments.
37. For 2020, the CTCC's requested NCF minimum balance is \$10 million.
38. Therefore, the Commission considers that any uncalled contribution not associated with the Broadband Fund and in excess of the \$10 million minimum balance after the December 2020 data-month is processed is not required by the NCF and can be released.

39. Accordingly, the Commission **directs** the CFA to release any 2020 uncalled contribution that is not related to the Broadband Fund or the \$10 million minimum balance after it has processed the December 2020 data-month.

## **Other Matters**

### ***Telecommunications Fee Regulations***

40. The Commission notes that, although the definition of contribution-eligible revenue for the purposes of the contribution regime has been expanded to include retail Internet access and paging service revenues, at present those revenues remain deductible for the purposes of the *Telecommunications Fee Regulations*. It is the Commission's intention to initiate the process required to consider whether to change the *Telecommunications Fee Regulations* so that they will follow the expanded contribution regime, as this would streamline reporting for the industry by using one contribution-eligible revenue report for two purposes.

### **Policy Directions**

41. The 2006 Policy Direction<sup>7</sup> and the 2019 Policy Direction<sup>8</sup> (collectively, the Policy Directions) state that the Commission, in exercising its powers and performing its duties under the *Telecommunications Act* (the Act), shall implement the telecommunications policy objectives set out in section 7 of the Act, in accordance with the considerations set out in the Policy Directions,<sup>9</sup> and should specify how its decisions can, as applicable, promote competition, affordability, consumer interests, and innovation.
42. The Commission considers that its determinations in this decision will help bring into effect its previous determinations, particularly those in Telecom Decision 2018-377 and Telecom Regulatory Policy 2014-187. The Commission considers that the determinations detailed therein are consistent with the 2006 Policy Direction and that their implementation promotes the objectives of the 2019 Policy Direction, by
- promoting the interests of consumers in areas benefiting from funding under the Broadband Fund, and promoting the affordability of service in those areas through securing the funding necessary to support the Broadband Fund; and

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<sup>7</sup> *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, SOR/2006-355, 14 December 2006.

<sup>8</sup> *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives to Promote Competition, Affordability, Consumer Interests and Innovation*, SOR/2019-227, 17 June 2019.

<sup>9</sup> The relevant considerations are the following: subparagraphs 1(a)(i) and 1(a)(ii) of the 2006 Policy Direction, which state that the Commission should rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives, using regulatory measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives; and paragraph 1(a) of the 2019 Policy Direction, which states that the Commission should consider how its decisions can promote competition, affordability, consumer interests and innovation.

- promoting the interests of consumers of VRS, including the affordability and technical accessibility of telecommunications services, through securing the funding necessary to implement VRS.
43. The Commission further considers, in accordance with subparagraph 1(a)(ii) of the 2006 Policy Direction, that in so doing it has employed a regulatory measure that is efficient and proportionate to its purpose, impairing market forces to the minimum required and allowing them to operate to the greatest extent possible. In particular, the Commission notes that it has established the revenue-percent charge only to the extent required to cover the documented and justified needs of the programs it is intended to support.

Secretary General

### **Related documents**

- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2021*, Telecom Decision CRTC 2020-394, 7 December 2020
- *Call for comments – Review of the Commission’s regulatory framework for Northwestel Inc. and the state of telecommunications services in Canada’s North*, Telecom Notice of Consultation CRTC 2020-367, 2 November 2020
- *Final 2019 revenue-percent charge and related matters*, Telecom Decision CRTC 2019-395, 4 December 2019
- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2020*, Telecom Decision CRTC 2019-394, 4 December 2019
- *Revised procedures for the operation of the National Contribution Fund, effective 1 January 2020*, Telecom Decision CRTC 2019-383, 28 November 2019
- *Development of the Commission’s Broadband Fund*, Telecom Regulatory Policy CRTC 2018-377, 27 September 2018
- *Phase-out of the local service subsidy regime*, Telecom Regulatory Policy CRTC 2018-213, 26 June 2018
- *Modern telecommunications services – The path forward for Canada’s digital economy*, Telecom Regulatory Policy CRTC 2016-496, 21 December 2016
- *Video relay service*, Telecom Regulatory Policy CRTC 2014-187, 22 April 2014
- *Revised procedures for the operation of the National Contribution Fund, effective January 2008*, Telecom Decision CRTC 2007-98, 11 October 2007
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007

- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000